United States House of Representatives
Committee on Small Business

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NATIONAL COUNCIL of TEXTILE ORGANIZATIONS

"Increasing Access to Capital for Small Business"

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Good afternoon Chairwoman Velazquez and members of the Committee, my name is Cass Johnson, I am the Chief Executive Officer of the National Council of Textile Organizations (NCTO). I am pleased to appear before you today to address this very important topic and will be pleased to share with you NCTO's perspectives on how this Committee can work to increase access to capital for small businesses. NCTO is a trade association representing the entire spectrum of the textile industry which includes fiber, yarn, fabrics, and industry suppliers.

Access to Credit Financing Drives the Economy and Job Creation
Given the current economic environment NCTO has found that our member companies have gone to great lengths to ensure that their operations remain strong and able to provide good-paying manufacturing jobs for their workers and families. Many have had to adapt their production in order to avoid making drastic cut backs. As you can imagine, adopting these business practices hasn't been easy, yet the CEOs that make up NCTO's membership felt this strategy was the best way to prevent significant disruption. The U.S. textile industry is not alone in its drive to keep its doors open, remain competitive, and keep people working. News of increasing unemployment continues to impact the nation's confidence and willingness to consume. Our country has shed more than 5 million jobs since 2001; the U.S. textile industry has lost nearly 50,000 jobs since December 2008, which is more than a 10 percent attrition rate. The National Association of Manufacturer (NAM) completed a 2009 Index of the Public Views on Manufacturing – it found that 71 percent of the public believes that manufacturing should be a national priority. The Index also found that in relationship to six other industries, manufacturing is the number one most important industry in maintaining a strong national economy. Other industries ranked behind manufacturing in the following order: technology, energy, healthcare, financial services, retail, and communications. Given the level of importance placed on the manufacturing sector the government should be doing its utmost to ensure the sector is viable and able to put Americans back to work.

Madame Chair, rebuilding a strong U.S. manufacturing base and creating new high paying, highly skilled manufacturing jobs is essential in order for the U.S. economy to recover.

Role of the Small Business Administration (SBA)
This committee, in working with the Small Business Administration (SBA), can make a real impact in aiding this nation's recovery. Small and medium sized manufacturers need access to credit, working capital and loan guarantees in order to manufacture products and engage in domestic and international commerce. These financing options play a pivotal role in the textile industry's ability to manufacture products and export those products to customers outside the U.S. Without adequate financing options and government supported guarantees, international markets are no longer viable for U.S. produced goods. According to the SBA, Office of Advocacy, small businesses are

responsible for over 97 percent of all U.S. exports. The U.S. textile industry, for example, is the world's third largest exporter of textile products, exporting over $16 billion in goods to other nations in 2008. Our business is dependent on exports, and securing adequate credit financing and short-term loan options have become a significant problem since the economic downturn. The problem is getting more pronounce and is threatening our industry. Currently the SBA has a 7(a) loan program called the Export Working Capital Program (EWCP) that provides export financing to manufacturers. Access to credit and securing financing from private financial institutions is becoming a major obstacle for the textile industry to remain competitive and the Export Working Capital Program potentially offers a solution for our member companies.

I understand that the committee recently considered for approval a broad package of bills that aimed to provide additional access and flexibility for small businesses to secure SBA guaranteed loans. On behalf of NCTO I applaud the committee's efforts to expand small business opportunities. However, a significant issue was left out of the discussion. Currently, the SBA is able to grant export working capital loans to small businesses. However given the restrictions on loan limits and business size, the program is rarely utilized and is not utilized by manufactures. I urge the committee to consider working with the SBA to update the Export Working Capital Loan Program so that small businesses including manufacturers are able to tap into government supported export financing. In addition, we urge the committee to focus specific attention to small and medium manufacturers' ability to guarantee credit so that they may engage in international commerce. In assessing the loan options that the SBA offers to small companies, the features of the Export Working Capital Program with certain modifications, we believe, can address most of the financing challenges that textile producers are encountering. Before I outline our proposed modifications, I'd like to outline the current problem that the industry is having with its export operations.

Impact of Economic Downturn

Historically, U.S. mills had been shipping to their domestic customers on open terms, generally 30 to 60 days. Some companies utilized factors and some had open terms and credit insurance. Export shipments had been done in a variety of ways; either against Letters of Credit (L/C); open terms with credit insurance; or in many cases factors. The terms were similar to those offered to the domestic customers, but sometimes special shipments or orders allowed for 90 day terms. Today, it is becoming more and more difficult for domestic textile manufacturers to secure any type of financing from any private lending source. Lenders have pegged the industry as high risk due to contraction over the past decade. Lenders no longer see the value proposition in lending to textile producers, and being considered high risk threatens to dry up our members sources of financing at a time when its needed more than ever. U.S. mills had various means of financing with domestic banks for raw material, work in process, finished goods and A/R, and normally financing arrangements were granted annual renewal. For collateral, the lenders required real and personal property, inventory (raw and finished goods), A/R (domestic) and subordinating credit insurance policies. As the textile industry has become more export oriented less credit is available because lenders will not allow foreign accounts receivable as collateral.

The aforementioned have been further disrupted by the financial crisis, beginning mid to late 2008. As the recession grew more pronounced, banks began cutting credit to U.S. mills either during the term, based on covenants in existing agreements, or in part upon renewal. On top of the tighter restrictions, factors pulled out of agreements on certain domestic and export customers. This exposed U.S. mills to greater risk, threatening the ability of the mills to function properly due to lack of funds available. Also credit insurers have cut back on A/R guarantees or dumped customers completely. This then caused a backlash by banks that are no longer willing to extend credit to mills that traditionally never had issues in securing credit financing.

This has all been compounded by customers, domestic and foreign, who have begun to pay bills late. In part, because of late payments from retailers our apparel producing customers in the CAFTA region are under severe financial stress. This is where the SBA, working in concert with Ex-Im bank, could play a pivotal role in restoring fluidity to the textile and apparel supply chain. The challenge that we are experiencing with Ex-Im is that it has pulled coverage provided to our customers due to late payments.

Foreign customers, in turn, have seen regional banks in Central America cut their credit lines in half and in some cases by even more. In part because U.S. banks have stopped extending credit to the Central American banks, our customers are asking U.S. mills to extend longer terms, up to 150 days without Ex-Im coverage, factoring, or private credit insurance coverage, which puts repayment at high risk.

Taking all the above into account, one can easily understand that smaller and midsize mills have been driven to the brink of existence, through no fault of their own, but rather caused by banks tightening lending standards or in certain cases pulling entire credit lines. Collateral does not mean as much as it has in years past as banks are now looking at cash flow for lending. For many companies, cash flow over the previous 12-months has been weak, putting the ability to secure future export financing at great risk.

What small and midsize mills need is access to capital in order to function normally and to have an adequate supply of raw material on hand in order to react quickly once orders are received. They also need credit in order to finance outstanding A/R, which in most cases is now greater due to the previously mentioned slow payments and in part through the necessity of granting longer payment terms.

In addition to the credit needed to finance the A/R, we need Ex-Im to get back to guaranteeing the A/R's since small and midsize companies are not able to carry credit risks. Ex-Im has the authority to do so today, but their choice has been to restrict guarantees.

Solution
NCTO has been proactive in response to the credit crisis. We formed an *ad hoc* committee of member companies and representatives from the National Cotton Council and Cotton Council International to review the situation and determine what could be done to correct it. The group studied the array of programs available through SBA, Ex-Im Bank, and the U.S. Department of Agriculture's GSM program. Several of NCTO's members have utilized these programs in the past, so there was already a broad understanding of what was available. As I mentioned earlier in my testimony, during normal economic times, the industry relies most heavily on private sector financing, with these programs filling the gaps or providing much needed credit insurance. With the overall lack of credit from private sources, the SBA and Ex-Im programs are good financing options but inadequate in their current form. With a few modifications, they would address the needs of US manufacturers on a wide scale.

Within the SBA programs, specifically the Export Working Capital Program, there are two requirements that automatically disqualify virtually every textile company. The first requirement is the size of the loans being guaranteed. Even for small companies, credit needs can easily exceed the $2,000,000 cap. Specialty products and large orders often exceed this limit. The second requirement limiting small and medium manufacturers' ability to take advantage of SBA programs is the limit on the size of the company. As you know, SBA allots size requirements by North American Industry Classification System codes. Textiles are classified in NAICS 313, Textile Mill Productions in NAICS 314, and Apparel in NAICS 315.

After extensively reviewing the Export Working Capital Program and studying others, we would like to suggest changes that would align the program with the current needs of business. The size limitations for companies in NAICS codes 31-33, which covers all manufacturers in every industry, should be raised from the current limit of 500 employees to 1,250. Our study of SBA loan programs has revealed that the agency has already capped size standards at 1,000 or 1,500, so we do not believe this moves the SBA outside its current scope. Increasing the size limit for manufacturers would open significant new export opportunities for small and medium sized enterprises in the United States. This will enhance SBA in its core mission: strengthening the small businesses critical to our economic recovery and strength, to building America's future, and to helping the United States compete in today's global marketplace. To ensure that SBA is covering businesses with an established history, the program could require that program candidates have been in business for at least one year.

Regarding the Export Working Capital Program, we suggest creating a new loan program outside of the current 7(a) program. SBA could set three loan amounts at $5 million, $10 million and $15 million that tie risk to the amount borrowed. This would limit the cost of the program. The terms of the loan would be for 12 to 18 months and use standard SBA terms for interest rates.

As mentioned a moment ago, the guarantee level would depend upon the size of the loan. SBA could offer its normal 90 percent guarantee for loans under $5 million; the program could offer an 80 percent guarantee for loans from $5 million to $10 million, and 70 percent for loans ranging from $10 million to $15 million. For companies with multiple loans, the total borrowed could not exceed $ 25 million.

We would also strongly encourage SBA to continue its credit programs offered in conjunction with the Ex-Im Bank. Even though many of the limitations mentioned earlier are still a barrier preventing full access to these programs, we believe this has been a fruitful relationship that has benefited U.S. companies. Because of the loan limitations on SBA programs, this joint effort has expanded access to credit for some small businesses since it allows a higher overall credit limit.

Conclusion
The need for credit has never been greater. We are seeing solid export opportunities in the NAFTA and CAFTA regions, but we are being forced to turn away business due to shortfalls of credit, credit guarantees, and working capital. We believe that the SBA can play an important role in opening up financing to companies and industries in need of alternative financing options. NCTO is committed to working with this committee, your Senate counterparts, and the SBA to accomplish this goal.

Chairwoman Velazquez, I'd like to thank you for the opportunity to appear before the committee and would be pleased to answer your questions.

Thank you.